

Message Text

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ACTION NEA-16

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

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TO SECSTATE WASHDC 2662

INFO AMCONSUL BOMBAY

AMCONSUL CALCUTTA

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E.O. 11642: N/A

TAGS:

SUBJECT: MRS. GANDHI ON THE STATE OF THE INDIAN ECONOMY

1. PRIME MINISTER GANDHI LAID SHE CORNERSTONE OF THE INSTITUTE FOR SOCIAL AND ECONOMIC CHANGE IN BANGALORE ON JULY 11 WITH A SPEECH ALMOST TOTALLY ECONOMIC IN CONTENT. BY TURN SHE CAJOLED, EXHORTED, DEFENDED AND PHILOSOPHIZED. SHE RECOGNIZED THAT PAST FAILURES OF INDUSTRIAL AND AGRICULTURAL OUTPUT COUPLED WITH THE PRESENT RAPID INFLATION "SUBVERT HOPES FOR THE FUTURE." SHE ATTACHED OVERRINDING IMPORTANCE TO CONTROLLING INFLATION WHICH SHE ANALOGIZED TO PUTTING THE COUNTRY ON A WARTIME FOOTING. SHE STRESSED THE GOVERNMENT'S EFFORT TO DO ITS PART, IN PARTICULAR, THE EFFORT TO LIMIT THE BUDGET DEFICIT TO RS. 1.25 BILLION. SHE DEFENDED THE RECENT WAGE LIMITATIONS AS NECESSARY TO BREAK THE SPIRAL IN WHICH COST-OF-LIVING INCREASES WERE USED AS A SIGNAL FOR MERCHANTS TO RAISE PRICES, AND CLAIMED IT DIDN'T TAKE AWAY ANTHING FROM WORKERS.

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2. THE PRIME MINISTER WAS AT PAINS TO DEFEND THE CREDIT SQUEEZE ON THE PRIVATE SECTOR, WHICH HAS BEEN MUCH CRITICIZED AS HINDERING PRODUCTION AND EXPORTS, AND STATED THAT THE BIG INDUSTRIAL BORROWERS ARE GOING TO BE WATCHED VERY CLOSELY.

3. SHE EXHORTED THE STATES TO OVERCOME THE COMPULSIONS THAT HAVE STOPPED THEM FROM TAXING AGRICULTURE INCOME AND THE RURAL WEALTHY. SHE PARTICULARLY DEPLORED SUBSIDIES ON WATER AND POWER USED FOR IRRIGATION. SHE WARNED THE STATES THEY WOULD NOT RECEIVE ANY OVERDRAFTS IF THEY OVERSPENT.

4. SHE SAID THE "INCOME TAX DEPARTMENT IS BEING ASKED TO INTENSIFY ITS EFFORTS TO BRINGSELF-EMPLOYED PROFESSIONALS AND TRADERS WITHIN THE TAX NET," WITHOUT INDICATING HOW THIS WAS TO BE DONE.

5. SHE REITERATED THAT THE PRICING POLICIES FOR FOODGRAINS AND OTHER COMMERCIAL CROPS WOULD BE GUIDED BY ANTI-INFLATIONARY CONSIDERATIONS, BUT COUPLED THIS WITH A RECOGNITION OF THE NEED TO INCREASE OUTPUT. SHE SAID THAT SOME IMPORTANT DECISIONS TO STIMULATE PRODUCTION OF KEY PRODUCTS HAD BEEN TAKEN, BUT GAVE NO DETAILS.

6. TURNING PHILOSOPHICAL, MRS. GANDHI TRIED TO QUIET THE WIDESPREAD DISSATISFACTION SO APPARENT IN INDIA TODAY, PORTRAYING IT AS AN INEVITABLE CONSEQUENCE OF THE CHANGES THAT ARE TAKING PLACE. SHE RECOGNIZED THAT WIDESPREAD POVERTY IS STILL THE "PREPONDERANT REALITY IN INDIA." BUT REJECTED A MORE "REGIMENTED SYSTEM" AS NOT BEING THE ANSWER AND NOT BEING FEASIBLE. THE IMPLICATION WAS CLEARLY THAT INDIA MUST CONTINUE SLOW PROGRESS IN ACCORDANCE WITH THE PRINCIPLES OF GANDHI AND NEHRU.

7. IN A PASSAGE SOMEWHAT REMINISCENT OF FRANKLIN ROOSEVELT'S FIRST INAUGURATION, SHE CLOSED WITH AN APPEAL FOR OTHERS TO JOIN HER "IN THE EFFORT TO BUILD A NEW PSYCHOLOGY OF CONFIDENCE".

8. DEA SECRETARY GOPI KAUL TOLD POL COUNSELOR AT LUNCH JULY 12 THAT SERIES OF NEW POLICY MEASURES ANTICIPATED BY PM (AND BEGUN WITH PRESIDENTIAL PROCLAMATIONS ON CONTROL OF DIVIDENDS, INCREASED WAGES AND DEARNESS ALLOWANCE EARLIER THIS WEEK) LIMITED OFFICIAL USE

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WOULD BE COMPLETED IN COURSE OF NEXT TWO MONTHS. HE EMPHASIZED ALL THE MEASURES CONTEMPLATED WERE "PARTIAL" IN THE SENSE THAT IN AN "OPEN ECONOMY" LIKE INDIA'S IT WAS BOTH POLITICALLY AND ECONOMICALLY INFEASIBLE TO RESORT TO SUDDEN DRAMATIC CHANGES IN THE SYSTEM. HE SAID IT WAS ONLY A MATTER OF GUESSWORK AT BEST WHETHER ANY OF THE MEASURES BEING UNDERTAKEN WOULD BE SUCCESSFUL, AGREED THE KEY QUESTION WAS HOW EFFECTIVELY THEY COULD BE IMPLEMENTED, AND SAID THE MOST IMPORTANT ASSUMPTION

WAS THAT THERE WOULD BE SUFFICIENT FOOD AVAILABLE IN THE SOCIETY. HE THOUGHT THE CHANCES WERE GOOD THERE WOULD BE. LABOR AND PRIVATE INDUSTRY HAD BEEN THE FIRST SECTORS WHERE ACTION WAS TAKEN BECAUSE IF THE GOVERNMENT WAS PREPARED TO TAKE ON THESE, IT WOULD BE MUCH MORE DIFFICULT FOR THE STATE POLITICIANS TO ARGUE AGAINST EXERTING EQUAL PRESSURE ON THE RURAL ELITE. IF PRICES BEGAN TO COME DOWN, KAUL THOUGHT EVERYTHING ELSE WOULD BE FOR GOTTEN

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IF THEY DIDN'T, THE GOVERNMENT MIGHT HAVE TO RESORT TO MUCH MORE DRACONIAN AND POLITICALLY MUCH MORE DIFFICULT METHODS STILL.

9. DEPUTY MINISTER OF COMMERCE, A. C. GEORGE, THE ONLY CENTRAL CABINET MINISTER FROM KERALA AND LEADER OF THE KERALA PARLIAMENTARY DELEGATION, TOLD POL COUNSELOR EARLIER THE SAME DAY THAT HE DID NOT SEE HOW THE PM'S REJECTION OF OVERDRAFTS FOR THE STATES COULD SURVIVE LOCAL POLITICAL PRESSURES. IN KERALA, HE SAID, 56 PERCENT OF STATE BUDGET WENT TO EDUCATION AND HEALTH, AND CUTBACKS IN EITHER WOULD PRODUCE THE GRAVEST POLITICAL BACKLASH. THE REMAINDER OF THE BUDGET CONSISTED OF IRREDUCIBLE "CORE SECTOR" ITEMS, LAW AND ORDER, ROAD CONSTRUCTION, ETC., AND WAS EQUALLY UNTOUCHABLE. HE THOUGHT THE PM WOULD ALMOST INEVITABLY HAVE TO BACK DOWN FOR SOME STATES LIKE HIS OWN.

10. COMMENT: MRS. GANDHI IS LAUNCHING HERSELF ON A TRICKY AND DIFFICULT COURSE. THE COMMENTS REPORTED IN PARAS 8 AND 9 ABOVE FROM A SENIOR ADMINISTRATOR AND A SAVVY POLITICIAN SUGGEST THE KEY PROBLEMS SHE WILL HAVE AND THE UNCERTAINTY MANY OTHER INDIANS WILL HAVE IF THEY CAN BE OVERCOME.
SCHNEIDER

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